



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

KIRK T. STEUDLE
DIRECTOR

September 30, 2008

TO: Transit Agencies and Certified Public Accountants Performing Public Transportation Audits

SUBJECT: FY 2008 Audit Information for September 30th Year Ends

This letter supplements the revised Audit Guide for Transportation Authorities (Audit Guide) with annual percentages, clarifications, and other necessary information. **Sections IV. E and F offer the option to provide an assurance rather than itemizing and explaining certain revenues. Section V. A has a new, very important requirement.**

Please comply fully with this letter and the requirements in the Audit Guide. In order to better assist you, a checklist has been developed to help ensure compliance. Noncompliance with anything identified on this checklist (when applicable) can result in the immediate notification that the audit is insufficient with a sixty-day period in which to have the audit corrected and resubmitted to us. This checklist is not intended to be all inclusive and should not be used as a substitute for reading and understanding the Audit Guide.

Both the Audit Guide and the checklist can be located at: <http://www.michigan.gov/mdotptd>. Find the "Resources" box, then click on "Audit/Accounting Information."

I. Reimbursement Percentages Necessary to Calculate State Operating Assistance

Based on the FY 2008 budgeted distribution:

- Nonurbanized areas and urbanized areas under 100,000 population were reimbursed at 36.1508 percent.
- Urbanized areas over 100,000 population were reimbursed at 30.6260.

The calculation of State Operating Assistance is explained on page 30 of the Audit Guide.

II. Information Necessary to Report and Calculate Federal Funding

- A. The calculation of Federal Section 5311 is explained on page 30 of the Audit Guide. For FY 2008, the reimbursement percent for Section 5311 is 16 percent.
- B. FY 2008 FTA Apportionments and Allocations can be located at:
http://www.fta.dot.gov/funding/apportionments/grants_financing_7790.html
- C. The website for the Catalog of Federal Domestic Assistance (CFDA) is on page 8 of the Audit Guide. This page also includes a summary of common transit CFDA numbers.

III. Necessary Columns on Schedule 3 “Operating and Contract Expenses” (page 19 in the Audit Guide for transit agencies with a September 30th year end)

- A. Expenses associated with operating contracts (e.g., Specialized Services, Section 5316 (JARC), and Section 5307 capital contracts that fund operating expenses) must be shown separately in the audit by contract and by year. For example, Section 5307 capital contracts are executed yearly and usually cover a three year period. Therefore, each contract has to be identified separately by year.

	MI-90-x381 02-0049-z5 FY 04 <u>\$5307</u>	MI-90-x399 02-0049-z10 FY 05 <u>\$5307</u>	MI-90-x481 02-0049-z27 FY 06 <u>\$5307</u>	MI-90-x016 02-0049-z20 FY 06 <u>JARC</u>	• • •	<u>Total</u>
Expenses:						
Labor		\$77,938	\$29,400	\$23,259		\$Sum
Fringes		47,752	14,036	15,450		\$Sum
Tires	7,050	3,666				\$Sum
•						
•						
•						
Depreciation						
Total Oper. Exp.	\$ Sum	\$ Sum	\$ Sum	\$ Sum		\$Sum

Do not lump similar contracts together:

	<u>\$5307 Contracts</u>	<u>JARC Contract</u>	• • •	<u>Total</u>
Expenses:				
Labor	\$107,338	\$23,259		\$Sum
Fringes	61,788	15,450		\$Sum
Tires	10,716			\$Sum
•				
•				
•				
Depreciation				
Total Oper. Exp.	\$ Sum	\$ Sum		\$Sum

Do not confuse the reporting of expenses with the reporting of revenues discussed in Section IV. F of this letter.

B. Expenses associated with the State of Michigan's Specialized Services Program must be reported on the schedule if the transit agency:

1. Is the direct recipient of both Specialized Services funds and State Operating Assistance funds, and
2. Actually provides the service or expenses pass-through funds on its books.

If the transit agency provides the service, then expenses must be allocated based on a Bureau of Passenger Transportation (BPT) approved cost allocation plan. A BPT approved cost allocation plan is required even if the transit agency only acts in a pass-through capacity. This pass-through cost allocation plan must state: (1) whether or not the pass-through funds are expenses on the transit agency's books, and (2) that none of the program funds are used to pay for the administrative costs of the organization acting as a pass-through agency.

C. When a transit agency is hired by a Specialized Services subrecipient to provide service, a cost allocation plan is not required. The transit agency only has to subtract out the revenue received from the Specialized Service subrecipient as ineligible on both: (1) OAR Schedule 4E (e.g., page 33 of the Audit Guide for an urban agency and page 37 for a nonurban agency), and (2) Schedule 5 "Operating Assistance Calculation" (page 40 of the Audit Guide).

D. Job Access/Reverse Commute

Federal Section 5316 funds reimburse 50% of JARC operating expenses up to the contract maximum. BPT may or may not match the Federal JARC funds. If BPT:

1. Matches the Federal JARC money, then the expenses must be:
 - i. Allocated in accordance with a BPT approved cost allocation plan.
 - ii. Reported on Schedule 3 "Operating and Contract Expenses" (that being, page 19 in the Audit Guide).
 - iii. JARC expenses must be reported on an individual OAR Schedule (e.g., see page 39 of the Audit Guide).
2. Does not match the Federal JARC money that a transit agency receives, then:
 - i. No BPT approved cost allocation plan is required.
 - ii. JARC expenses are included in both (1) OAR Schedule 4E (e.g., pages 32 & 33 of the Audit Guide for an urban agency and page 36 for a nonurban agency), and (2) Schedule 5 "Operating Assistance Calculation" (page 40 of the Audit Guide).

- iii. The Federal JARC funds received are subtracted out as ineligible on both: (1) OAR Schedule 4E (e.g. pages 33 of the Audit Guide for an urban agency and page 37 for a nonurban agency), and (2) Schedule 5 "Operating Assistance Calculation" (page 40 of the Audit Guide).

E. Federal Section 5317 - New Freedom

The first of the New Freedom contracts executed are for a 15-month period beginning July 1, 2008, through September 30, 2009. There is a fifty percent match required for operating projects. For this first period, MDOT will provide toll credits for the match if the transit agency did not have local funds available. Therefore, some of the operating projects have toll credit match and some have local share. In future years, all projects will be required to provide the local share for any operating project.

New Freedom expenses must be:

- i. Allocated in accordance with a BPT approved cost allocation plan.
- ii. Reported on Schedule 3 "Operating and Contract Expenses" (that being, page 19 in the Audit Guide).
- iii. Reported on an individual OAR Schedule (e.g., see page 39 of the Audit Guide).

IV. Ineligible Expenses Reported on OAR Schedule 4E and Schedule 5 "Operating Assistance Calculation"

Ineligible expenses are explained in the Local Public Transit Revenue and Expense Manual dated October 1, 2007, through September 30, 2008. This manual is located at: <http://www.michigan.gov/mdotptd>. Find the "Resources" box and click on "Audit/Accounting Information." Specifically note the following with regard to ineligible:

- A. Money received from a Specialized Services subrecipient that originated from BPT is ineligible. Refer back to Section III.C. of this letter for further explanation.
- B. Federal Section 5316 (JARC) money received when BPT did not match the Federal funds is ineligible. Refer back to Section III.D. of this letter for further explanation.
- C. Capital money (e.g., Section 5307, Section 5309, Section 5310, and Section 5311) used to pay for operating expenses is ineligible.
- D. Lobbying and Association Dues
 - 1. All expenses associated with lobbying are not eligible and should be subtracted out under 58005 Ineligible Lobbying Expense.

2. If a transportation organization incurs lobbying expenses, a percentage of dues paid to that organization is not eligible and should be subtracted out under 55009 Ineligible Percent of Association Dues. The percentage of association dues ineligible for reimbursement under the State Operating Assistance Program and Section 5311 Operating Assistance Program for FY 2008 and FY 2007 are:

	<u>FY 2008</u>
APTA:	14.0 percent
CTAA:	1.66 percent
MassTrans:	10.9 percent
MPTA:	6.99 percent

- E. Miscellaneous revenue must be itemized and explained so that ineligibles associated with the miscellaneous revenue can be identified. In lieu of itemizing and explaining, a lump sum "miscellaneous revenue" amount may be reported in the annual audit along with an assurance that any ineligible expenses associated with the miscellaneous revenue have been subtracted from total expenses as ineligible.
- F. Federal (PTMS code 413xx) and State (PTMS code 411xx) revenue codes must be identified separately by Federal grants and State contract and authorization numbers. In lieu of listing Federal and State grants/contract separately, a lump sum amount may be reported in the annual audit along with an assurance that any ineligible expenses associated with the Federal and State revenues have been subtracted from total expenses as ineligible. **Do not confuse the reporting of revenues with the reporting of expenses discussed in Section III. A of this letter.**

V. Additional Requirements and Information

- A. After the 2008 annual audit has been either submitted to BPT or posted to Treasury's website, the transit agency has up to thirty days in which to notify BPT of any inaccuracies in the 2008 annual audit. Thirty days of silence means that the transit agency has reviewed the submitted/posted 2008 annual audit and certifies that:
1. The transit portion of the audit: (a) is correct, and (b) complies with the Audit Guide.
 2. All ineligible expenses, as defined by the R&E Manual, are properly reported and properly subtracted out as ineligible.
- B. For transit agencies that exceed \$500,000 or more in Federal funds, a copy of its annual audit must be sent to:

Federal Audit Clearinghouse*
1201 East 10th Street
Jeffersonville, IN 47132

*No contact person necessary

If the audit contains an audit finding and/or a status of prior audit findings relating to a Federal award, a copy of the annual audit must be sent to:

Derek Davis, Transportation Program Specialist
Federal Transit Administration
200 W. Adams Street, Suite 200
Chicago, Illinois 60606

- C. The expenditure information on Schedule 2 "Expenditures of Federal and State Awards" is used in MDOT's review of operating and capital contracts. Both Federal and State funding should be included. **This information should be consistent with the fixed assets and the revenues in the financial statements.**
- D. BPT reviews and approves all cost allocation plan methodologies. Page 13 of the Audit Guide requires cost allocation plans used in the preparation of the financial statements and the transit schedules to be identified by name.

To verify that the transit agency has an approved cost allocation plan, visit our website at: <http://www.michigan.gov/mdotptd>. In the "Resources" box, click on "Audit/Accounting Information." Then click on "cost allocation listing." This listing is updated periodically. It is possible that a transit agency's cost allocation plan was approved since the last listing was posted.

If you have any questions about cost allocation plans, please contact Sandy Lovell, Accountant, at 517-335-2525 or at lovells@michigan.gov.

Please contact Trish D'Itri, Auditing Specialist, at ditrit@michigan.gov or at 517-335-2535 with questions or if you need website information mailed to you.

Sincerely,

Sharon L. Edgar, Administrator
Bureau of Passenger Transportation